



# Business and Financial Review January - September 2008

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6 November 2008

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# Croatia and its telecom market

### Croatia at a glance

- 4.4 million population
- 1.5 million households
- Largest 10 cities house 36% of population
- 90,000+ companies
- 11.2 million tourists in 2007 (89% from abroad)



A map of Croatia showing its geographical outline and major cities. The cities marked are Rijeka on the coast, Zagreb in the north, Osijek in the northeast, and Split on the coast. The map is shaded in a light gray color.

### 2008 Economic data<sup>(1)</sup>

- GDP<sup>(2)</sup> per capita: €9,399
- Real GDP growth: 4.4%
- Unemployment rate: 9.0%
- Average net salary Jan-Jul 2008: €702
- Inflation rate September 2008<sup>(3)</sup>: 6.2%

(1) Croatian Ministry of Finance's Economic and Fiscal Policy Guidelines for the period 2009-2011  
(2) Gross domestic product  
(3) Annual average inflation as published by the Central Bureau of Statistics

Sources: Ministry of Finance, Central Bureau of Statistics, Croatian National Bank

### Croatian telecom market

- Fixed line
  - 15 licensed operators, of which 9 active
  - CPS, ULL and bit-stream available
- Mobile
  - 3 operators on the market, no mobile virtual network operators (MVNO)
  - Mobile penetration: 126.5%
- Internet
  - ~45% of households with Internet access
  - Broadband household penetration: 27%
- Cable
  - Cable TV household penetration: 9%
  - Cable TV broadband penetration: 1%

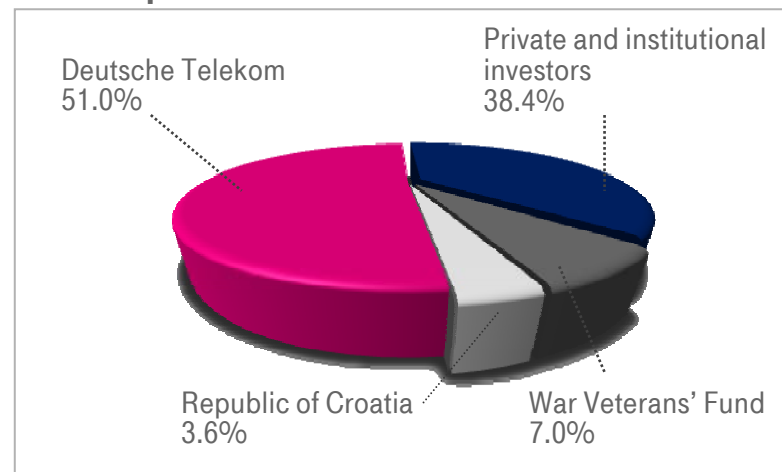
Sources: Croatian Agency for Telecommunications, Puls market survey, Company's internal estimates

# About T-HT Group

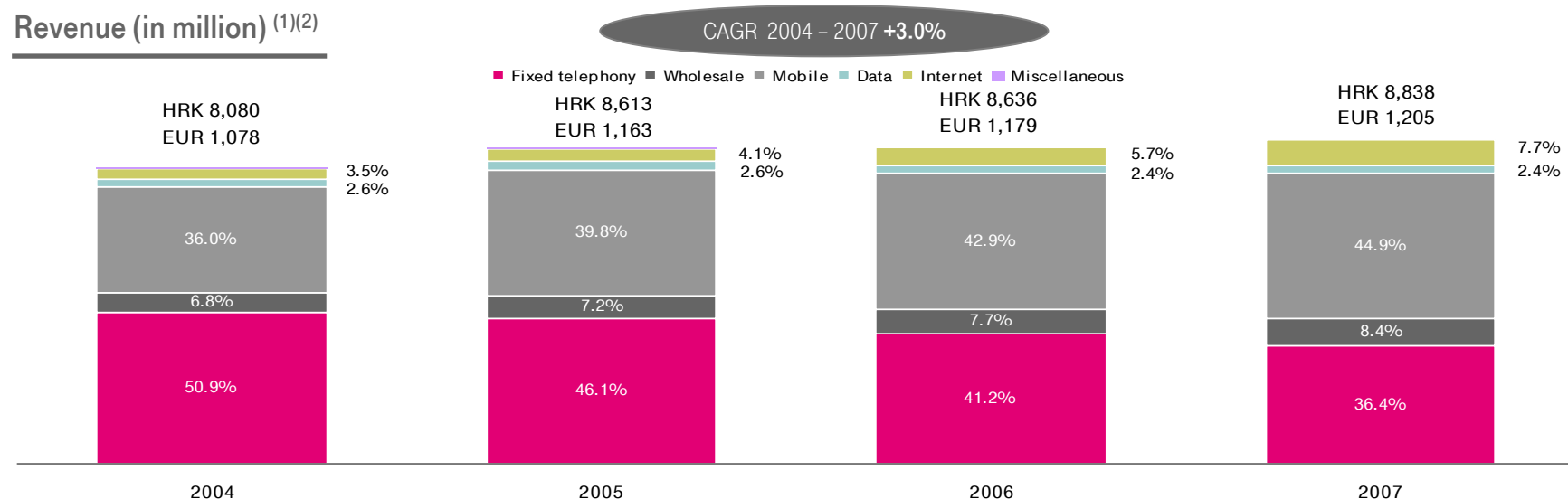
## Highlights

- Full-service telecom provider and market leader in all major segments; full liberalisation since 2005
- Two business units:
  - T-Mobile (mobile operations)
  - T-Com (fixed telephony, internet, data, wholesale)
- 50%-100% dividend policy, 100% payout ratio for FY 2007
- Above industry average EBITDA margin
- Technological and quality leadership, strong expertise in IP Networks
- Listed on the LSE and ZSE since October 2007

## Ownership structure <sup>(3)</sup>



## Revenue (in million) <sup>(1)(2)</sup>



<sup>(1)</sup> Consolidated revenue (excluding other income). Iskon included from 2006 onwards.

<sup>(2)</sup> Kuna per Euro average rate of exchange: in 2004: 7.49; in 2005: 7.40; in 2006: 7.32; in 2007: 7.33.

<sup>(3)</sup> After "Bonus Shares" distribution on 6 October 2008 to Croatian retail investors, the Government of the Republic of the Croatia reduced its shareholding from 5.2% to 3.6%.

## Group Highlights

- Maintained position as market leader in all business segments
- Growth in revenue from Mobile, Internet and Wholesale services more than offset the expected decline in Fixed line voice revenue
  - IPTV reaches 100,000 customers in October
  - Launching iPhone in Croatia on 7 November
- Strong financial performance
- EBITDA margin 48.0%
- Operating cash flow remains strong at HRK 1,937 million
- As a part of ongoing cost-optimization programme, further headcount reduction of 216 staff expected
- Outlook maintained, but with full-year revenue expectations slightly increased

### IFRS, unaudited

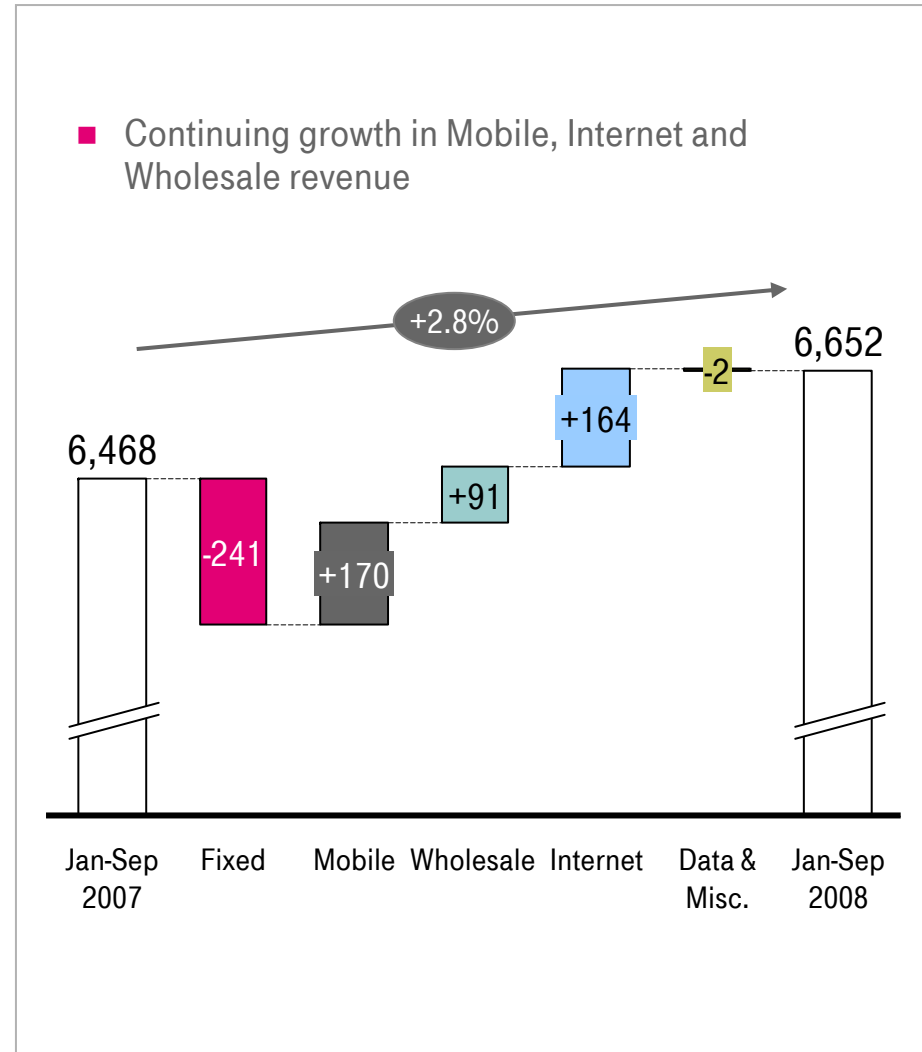
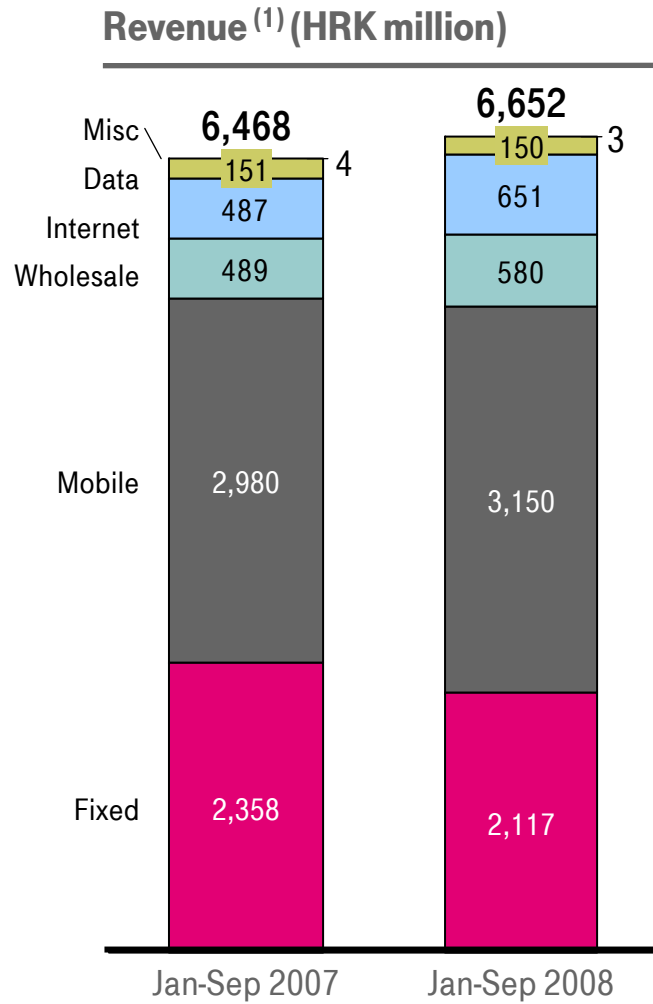
	Jan - Sep 2007	Jan - Sep 2008	% change
Revenue <sup>(1) (2) (3)</sup> (in HRK million)	6,468	6,652	2.8%
(in EUR million)	885	919	3.8%
EBITDA (in HRK million)	3,196	3,193	-0.1%
(in EUR million)	437	441	0.9%
Net profit (in HRK million)	2,153	1,888	-12.3%
(in EUR million)	295	261	-11.5%
Headcount (at 30 Sep)	6,860	6,481	-5.5%

<sup>(1)</sup> Kuna per Euro average rate of exchange: Jan-Sep 2008: 7.24; Jan-Sep 2007: 7.31

<sup>(2)</sup> Excluding other income

<sup>(3)</sup> Revenue from VAS services is presented on the net principle.

# Group Revenue Development



<sup>(1)</sup> Consolidated revenue (excluding other income); revenue from VAS services is presented on the net principle.

# T-Com Highlights

- Leadership maintained in all segments
- High-quality and innovative services attracting new and upgrading broadband users
- Growth in Internet and Wholesale almost entirely offset the decline in Fixed telephony services
- Strong growth in Internet services driven by IP/DSL
- Capital expenditure increased by 40.9% to fund Network expansion and upgrades

## Key financials (HRK million)

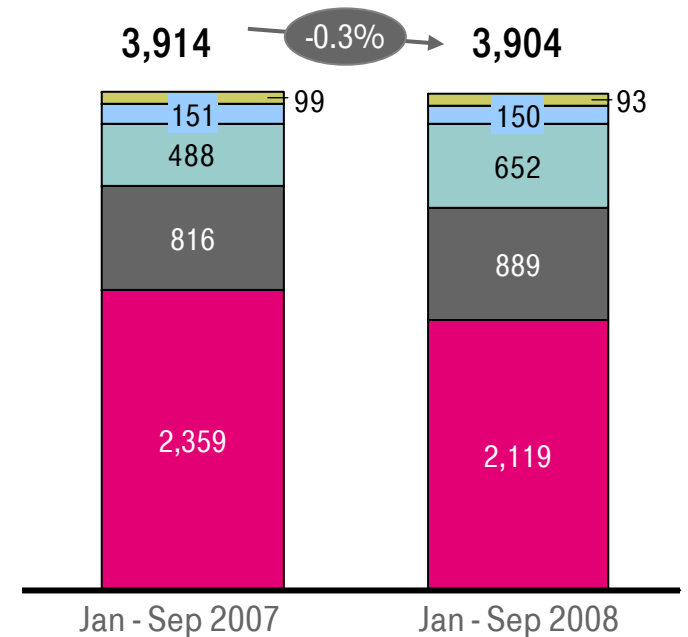
	Jan - Sep 2007	Jan - Sep 2008	% change
Revenue <sup>(1) (2)</sup>	3,914	3,904	-0.3%
EBITDA	1,705	1,636	-4.0%
EBITDA before exceptional items <sup>(3)</sup>	1,747	1,636	-6.4%
EBITDA margin	43.6%	41.9%	-1.7 p.p.
EBITDA margin before exceptional items	44.6%	41.9%	-2.7 p.p.
Capex	430	606	40.9%
Capex / Revenue	11.0%	15.5%	4.5 p.p.
Headcount (at 30 Sep)	5,802	5,398	-7.0%

<sup>(1)</sup> Excluding other income

<sup>(2)</sup> Unconsolidated figures; revenue from VAS is presented on the net principle

<sup>(3)</sup> Exceptional items in 3Q 2007 only: 43 Mio HRK → HRK 35 million related to DTI costs and HRK 8 million related to IPO costs).

## Revenue by business service<sup>(2)</sup> (HRK million)

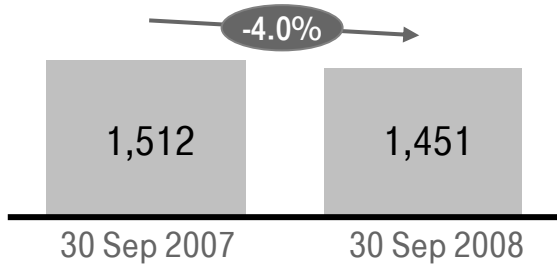


■ Fixed ■ Wholesale ■ Internet ■ Data ■ Miscellaneous

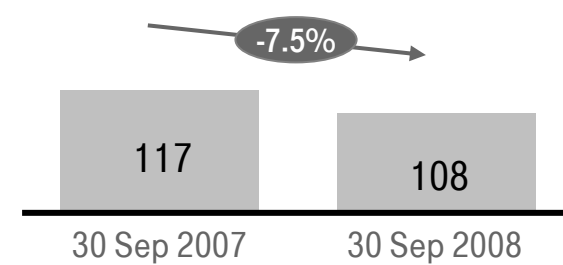
# Fixed Telephony

- Fixed-line revenue down 10.2% to HRK 2,119 million
- Number of fixed lines remained relatively stable
- Decline in traffic slowing compared with full year 2007
- Fixed voice ARPA declining mostly due to decreased traffic

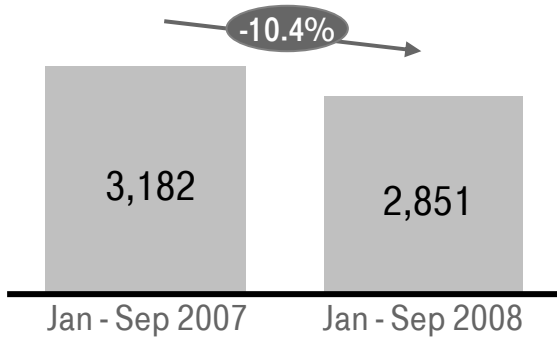
No. of POTS<sup>(1)</sup> mainlines ('000)



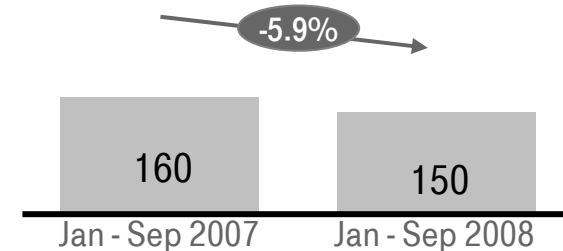
No. of ISDN mainlines ('000)



Total traffic in minutes (million)



ARPA<sup>(2)</sup> (HRK)



<sup>(1)</sup> FGSM included; payphones not included

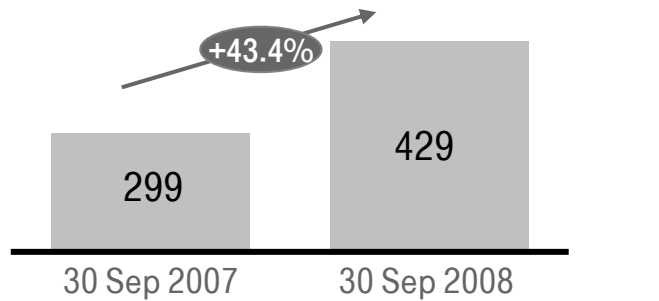
<sup>(2)</sup> Voice revenue per voice access - monthly average for the period



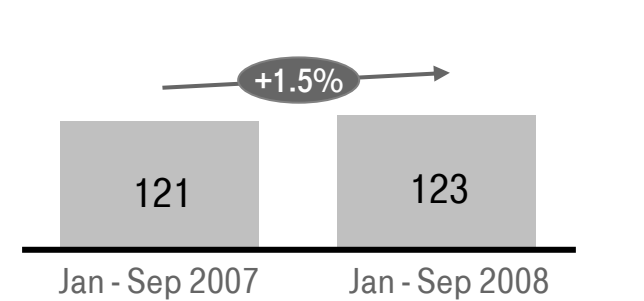
## Internet Services

- Internet revenue up 33.5% to HRK 652 million
- Strong growth in ADSL driven by new broadband customers and upgrades from dial-up
- Competitive broadband pricing-more traffic for less cost, lower-cost 'unlimited' package
- ARPA improving through migration to higher speeds
- Attractive content and promotions driving strong growth in IPTV, reaches 100,000 customers in October following launch of standalone product

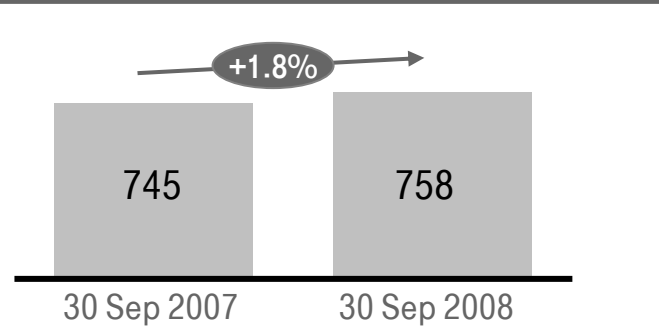
No. of ADSL mainlines ('000)



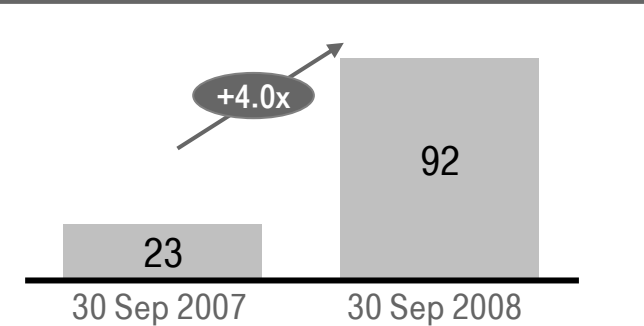
ADSL mainlines ARPA<sup>(2)</sup> (HRK)



No. of dial-up users<sup>(1)</sup> ('000)



No. of IPTV customers ('000)

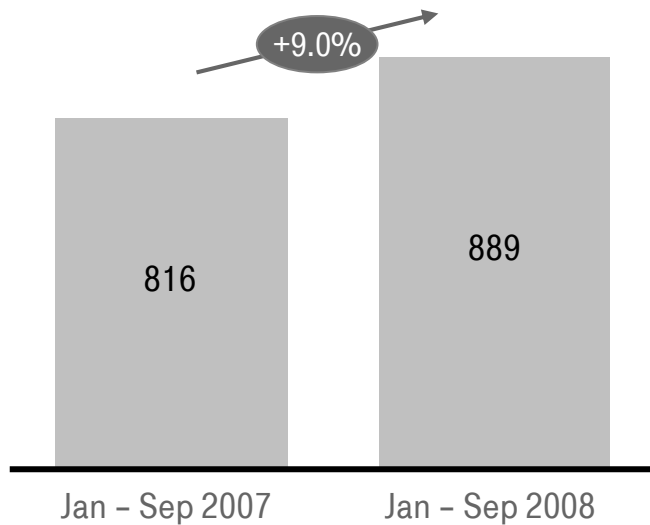


<sup>(1)</sup> Active and non-active users  
<sup>(2)</sup> Monthly average for the period

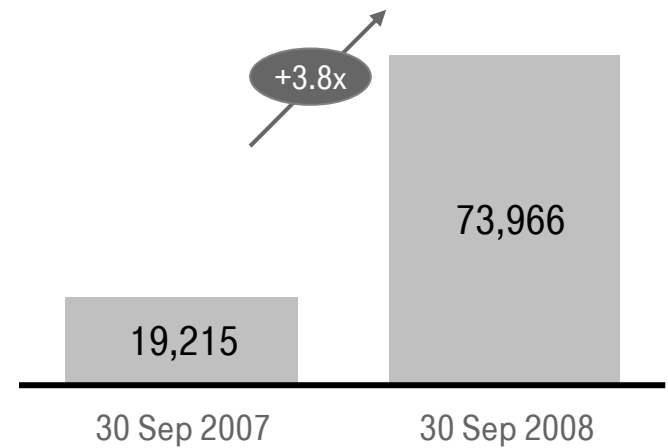
# Wholesale and Data Services

- Wholesale revenue increased by 9.0%, primarily driven by continued market liberalisation
- Large increase in ULL
- Number of CPS customers decreased by 8.0% due to the migration to ULL
- Data revenue slightly down to HRK 150 million
- Number of data lines decreasing as customers migrate towards new IP-based services

Wholesale revenue (HRK million)



Number of ULL



## T-Mobile Highlights

- Customer numbers exceed 2.6 million
- Postpaid customers driving revenue growth
- Higher customer-related costs impacting EBITDA margin
- Capital expenditure increased by 21.6% mainly due to the increased investment in 3G networks and new platforms
- Launching iPhone in Croatia on 7 November

### Key financials (HRK million)<sup>(1)(2)(4)</sup>

	Jan - Sep 2007	Jan - Sep 2008	% change
Revenue	3,191	3,365	5.5%
EBITDA	1,491	1,557	4.4%
EBITDA margin	46.7%	46.3%	- 0.4 p.p.
Capex	199	242	21.6%
Capex / Revenue	6.2%	7.2%	1.0 p.p.
Headcount (at 30 Sep)	1,058	1,083	2.4%

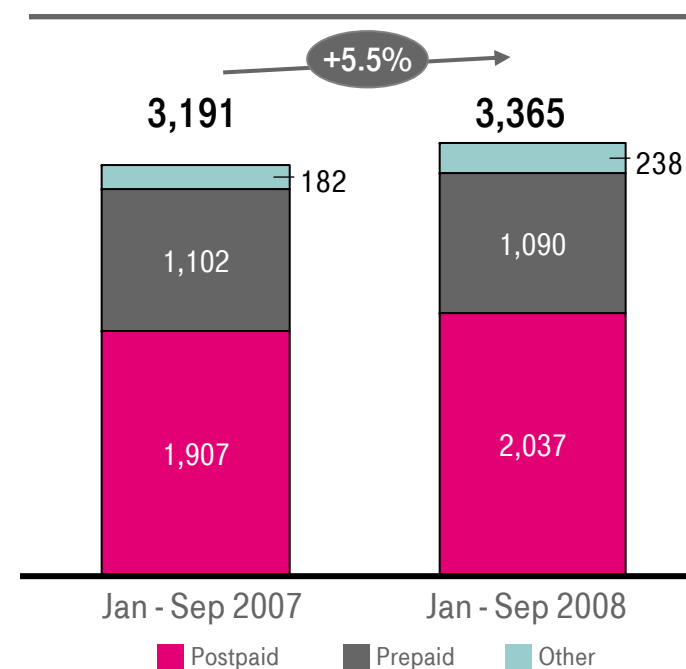
<sup>(1)</sup> Unconsolidated figures, excluding other operating income

<sup>(2)</sup> Revenue from VAS services is presented on the net principle.

<sup>(3)</sup> Postpaid / prepaid distribution changed due to change of interconnection revenue ratio according to actual data.

<sup>(4)</sup> Including revenue from visitors.

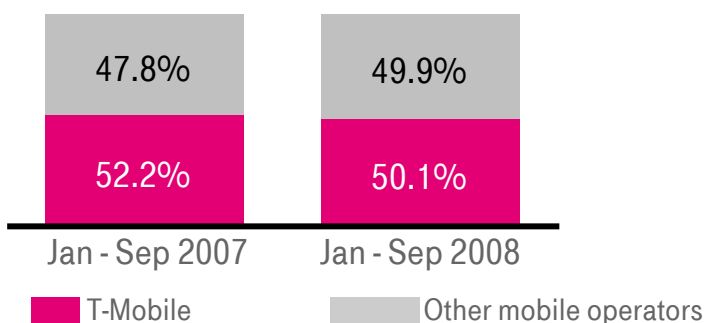
### Revenue breakdown<sup>(3)</sup> (HRK million)



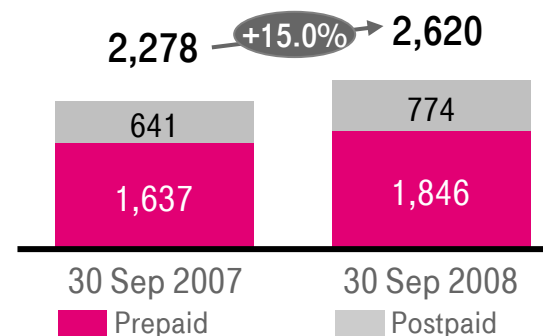
# T-Mobile Operational Data

- Maintained leadership with 46.6% of SIM market share
- Strong 20.7% growth in postpaid, proportion of postpaid customers increased from 28% to 30%
- Decrease in ARPU is a result of price cutting and increased penetration
- Monthly minutes of use per average customer down 1.8% mostly due to customer promotions encouraging longer calls in Q3 2007 not being repeated in Q3 2008

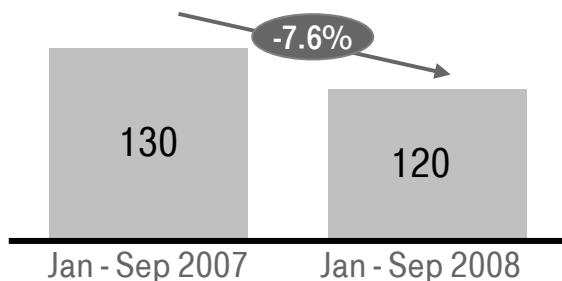
Market share by revenue (%)<sup>(1)(2)</sup>



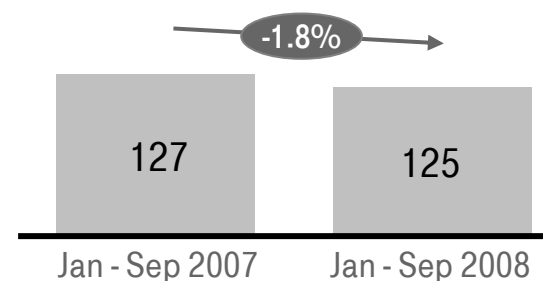
Number of T-Mobile customers ('000)



Blended ARPU (HRK/month)



Average MOU (minutes/month)



<sup>(1)</sup> Source: Published VIPnet's and Tele2's report for 2Q2007. Number of customers for VIPnet and Tele2 for Q3 internally estimated. Telekom Austria Annual report for Q1&Q2 2008. Tele2 report for Q1,Q2 and Q3 2008. VIPnet's total revenue for Jan-Sep '08 internally estimated. VIPnet's National roaming services internally estimated. Tele2 Total revenue internally estimated. Market shares are based on unconsolidated revenue for T-Mobile (i.e. not net of T-Com revenue). Market shares by total revenue without national roaming.

<sup>(2)</sup> Revenue from VAS services is presented on net principle.

# Group Financial Highlights

IFRS, unaudited	HRK million		
	Jan - Sep 2007	Jan - Sep 2008	% change
Revenue <sup>(1)</sup>	6,468	6,652	2.8%
EBITDA	3,196	3,193	-0.1%
EBITDA before exceptional items <sup>(2)</sup>	3,238	3,193	-1.4%
EBITDA margin	49.4%	48.0%	-1.4 p.p.
EBITDA margin before exceptional items	50.1%	48.0%	-2.1 p.p.
Net profit	2,153	1,888	-12.3%
Net profit margin	33.3%	28.4%	- 4.9 p.p.
Capex	629	848	34.8%
Capex / Revenue	9.7%	12.8%	3.0 p.p.

<sup>(1)</sup> Excluding other income; revenue from VAS services is presented on the net principle.

<sup>(2)</sup> Exceptional items in 3Q 2007 only: 43 HRK million → HRK 35 million related to DTI costs and HRK 8 million related to IPO costs.

# Group 2008 Outlook maintained, but with full-year revenue expectations slightly increased

## Revenue

- Group revenue expected to be slightly above 2007 levels.
- Decline in Fixed-line revenue being offset by good growth in Internet, Mobile and Wholesale revenue.
- ADSL customer base expected to reach 450,000 customers by the end of 2008. Strong growth in our MAXtv customer base expected to continue following launch of stand-alone service.
- Continued growth in Mobile customers and Data services will drive a solid increase in Mobile revenue although Mobile ARPU will decrease as a natural consequence of SIM growth outpacing revenue growth.

## CAPEX

- The Group is focused on the development of an access network as a part of its strategy to migrate to a single IP platform. Therefore CAPEX is expected to represent a slightly higher percentage of revenue in 2008, compared with 2007.

## EBITDA

- Ongoing cost control programme will mitigate to some degree the erosion of EBITDA margins caused by competitive pressures and increasing customer acquisition and retention costs.

## Regional Expansion

- The Group intends to participate in the privatization process of HT Mostar. T-HT holds a 39.1% stake in HT Mostar and is represented on its management bodies. The Group will continue to monitor and evaluate all other expansion opportunities that could increase shareholder value.

# Appendix

## Consolidated Income Statement

in HRK million (IFRS; unaudited)	Jan-Sep 2008	Jan-Sep 2007	% of change 08/07
Mobile telephony	3,150	2,980	5.7%
Fixed telephony	2,117	2,358	-10.2%
Wholesale services	580	489	18.7%
Internet services	651	487	33.7%
Data services	150	151	-0.5%
Miscellaneous	3	4	-6.7%
<b>Revenue <sup>(1)</sup></b>	<b>6,652</b>	<b>6,468</b>	<b>2.8%</b>
Other operating income	186	194	-4.2%
<b>Operating expenses</b>	<b>3,644</b>	<b>3,467</b>	<b>5.1%</b>
Merchandise, material, services, energy and other expenses	2,810	2,561	9.7%
Merchandise, material and energy expenses	731	564	29.6%
Services expenses	1,032	918	12.3%
Other expenses	1,048	1,079	-2.9%
Employee benefit expenses	852	884	-3.6%
Work performed by the Group and capitalised	-86	-76	13.1%
Write down of current asset	68	98	-30.3%
<b>EBITDA</b>	<b>3,193</b>	<b>3,196</b>	<b>-0.1%</b>
Depreciation and amortization	1,009	1,018	-0.9%
Impairment of non-current assets	1	1	61.7%
<b>EBIT</b>	<b>2,183</b>	<b>2,177</b>	<b>0.3%</b>
Net financial income	219	231	-5.2%
Income from investment in joint ventures	20	270	-92.5%
<b>Profit before taxes</b>	<b>2,423</b>	<b>2,679</b>	<b>-9.6%</b>
Taxation	534	526	1.6%
<b>Net profit for the year</b>	<b>1,888</b>	<b>2,153</b>	<b>-12.3%</b>
Exceptional items	0	43	-100.0%
<b>EBITDA before exceptional items <sup>(2)</sup></b>	<b>3,193</b>	<b>3,238</b>	<b>-1.4%</b>

<sup>(1)</sup> As of Q1 2008, revenue from VAS (value-added services) is presented on a net basis and the figures for 2007 have been adjusted accordingly.

<sup>(2)</sup> Exceptional items in 3Q 2007 only: 43 HRK million → HRK 35 million related to DTI costs and HRK 8 million related to IPO costs.



## Consolidated Balance Sheet

in HRK million (IFRS; unaudited)	At 30 Sep 2008	At 31 Dec 2007	% of change 08/07
Intangible assets	898	1,007	-10.8%
Property, plant and equipment	6,085	6,151	-1.1%
Goodwill	77	76	0.8%
Investments	416	393	5.9%
Other long term assets	93	112	-16.8%
<b>Total non-current assets</b>	<b>7,569</b>	<b>7,739</b>	<b>-2.2%</b>
Inventories	320	230	38.9%
Trade and other receivables	1,377	1,269	8.5%
Prepayments and accrued income	77	62	24.1%
Available-for-sale investments	65	94	-30.9%
Cash equivalents and time deposits	4,891	5,898	-17.1%
<b>Total current assets</b>	<b>6,730</b>	<b>7,554</b>	<b>-10.9%</b>
<b>TOTAL ASSETS</b>	<b>14,298</b>	<b>15,293</b>	<b>-6.5%</b>
Subscribed share capital	8,189	8,189	0.0%
Reserves	412	411	0.0%
Retained earnings	3,445	3,973	-13.3%
<b>Total issued capital and reserves</b>	<b>12,046</b>	<b>12,573</b>	<b>-4.2%</b>
Provisions	95	90	6.1%
Employee benefit obligations	214	201	6.7%
Deferred income and other non-current liabilities	19	165	-88.7%
<b>Total non-current liabilities</b>	<b>328</b>	<b>455</b>	<b>-27.9%</b>
Trade and other payables	1,201	1,520	-21.0%
Provisions for redundancy	114	277	-58.8%
Accruals, deferred income and short term borrowings	609	468	30.1%
<b>Total current liabilities</b>	<b>1,924</b>	<b>2,265</b>	<b>-15.0%</b>
Total liabilities	2,253	2,720	-17.2%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>14,298</b>	<b>15,293</b>	<b>-6.5%</b>

## Consolidated Cash Flow Statement

in HRK million (IFRS; unaudited)	Jan-Sep 2008	Jan-Sep 2007	% of change 08/07
Net profit	1,888	2,153	-12.3%
Depreciation and impairment loss of non-current assets	1,010	1,018	-0.8%
Income tax expense	534	526	1.6%
Decrease/ (Increase) in inventories	-90	-37	141.4%
(Increase) / Decrease in receivables and payables	-479	-471	1.9%
Decrease in provisions	-96	-250	-61.6%
Other transaction with impact on operating activities	-277	-438	-36.8%
Taxes paid	-555	-440	26.1%
<b>Net cash flows from operating activities</b>	<b>1,937</b>	<b>2,062</b>	<b>-6.1%</b>
Net Purchase/Proceeds of non-current assets	-815	-628	29.9%
Net Purchase/Proceeds of financial assets	1,532	1,941	-21.1%
Interest received	265	213	24.5%
Dividend received	0	0	
<b>Net cash flows from / (used in) investing activities</b>	<b>982</b>	<b>1,526</b>	<b>-35.6%</b>
Repayment of long-term borrowings and lease liability	-8	-3	134.5%
Dividends paid	-2,421	-2,617	-7.5%
<b>Net cash flows used in financing activities</b>	<b>-2,428</b>	<b>-2,620</b>	<b>-7.3%</b>
<b>Net decrease in cash and cash equivalents</b>	<b>491</b>	<b>968</b>	<b>-49.3%</b>
Effect of F/X rate changes on cash and cash equivalents	-5	-4	16.5%
At the beginning of period	3,366	1,254	168.4%
Net cash (outflow) / inflow	485	963	-49.6%
<b>At the end of period</b>	<b>3,851</b>	<b>2,217</b>	<b>73.7%</b>

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[www.t.ht.hr/eng/investors/](http://www.t.ht.hr/eng/investors/)

London Stock Exchange GDR trading symbol: THTC

Zagreb Stock Exchange Share trading symbol: HT-R-A

Reuters: THTC.L, HT.ZA

Bloomberg: THTC LI, HRTA CZ